



Interfor Corporation

Vancouver, B.C.

July 28, 2016

Interfor Reports Q2'16 Results Record EBITDA¹ of \$56.9 million Strong Lumber Prices Progress on Operational Initiatives

INTERFOR CORPORATION ("Interfor" or the "Company") (TSX: IFP) recorded net earnings in Q2'16 of \$23.2 million, or \$0.33 per share, compared to \$0.8 million, or \$0.01 per share in Q1'16. Adjusted net earnings¹ in Q2'16 were \$20.9 million, or \$0.30 per share, compared to \$2.6 million, or \$0.04 per share, in Q1'16.

Adjusted EBITDA¹ was \$56.9 million on sales of \$458.8 million in Q2'16, versus Adjusted EBITDA¹ of \$33.4 million on sales of \$433.9 million in Q1'16.

Highlights for the quarter include:

- Higher Lumber Prices
 - Product prices were higher in Q2'16 versus Q1'16, with the Western SPF Composite and the Southern Pine ("SP") Composite up over the prior quarter by US\$38 and US\$27 per mfbm, respectively. As somewhat of an offsetting factor, the Canadian Dollar was stronger quarter-over-quarter, averaging 1.2886 in Q2'16 versus 1.3732 in Q1'16.
- Higher Lumber Production
 - The Company produced an additional 19 million board feet in Q2'16 versus Q1'16, mostly reflective of productivity gains at several operations as ongoing improvement initiatives take effect.
- Business Optimization Initiative
 - The Company is focused on capturing margin expansion opportunities across its operations and has taken a number of steps to advance this initiative.
 - In particular, the Company has achieved strong productivity, cost and product mix gains at its Gilchrist, Oregon operation, which resulted in a significant margin improvement over Q1'16. In addition, a number of margin improvement projects are underway across the U.S. South platform, with early stage results being realized.
- Tacoma Sawmill Monetization
 - The monetization process for the Tacoma sawmill property is proceeding on track, with the sale expected to close in the second half of 2016.
- Free Cash Flow Generation
 - Interfor generated \$62.6 million of cash from operations, with a reduction in working capital contributing \$6.3 million. Capital spending amounted to \$15.8 million during the quarter.
 - The Company's net debt decreased by \$32.1 million during the quarter to \$396.0 million, or 35.2% of invested capital, providing the Company with \$181.2 million of available liquidity as at June 30, 2016.

¹ Refer to Non-GAAP Measures section

Production

Lumber production in Q2'16 was 637 million board feet versus 618 million board feet in Q1'16.

Production from Canadian operations totaled 218 million board feet in Q2'16, up 8 million board feet compared to Q1'16. Production increased most significantly at Castlegar, which produced an additional 4 million board feet as productivity gains have continued following the resumption of operations at that mill in Q4'15.

Production from the Company's nine U.S. South sawmills totaled 270 million board feet, up 5 million board feet compared to Q1'16 as a result of a modest increase in total productivity.

Production from U.S. Northwest operations totaled 149 million board feet in Q2'16, an increase of 6 million board feet over the preceding quarter. The Company's three stud mills in the region contributed an additional 3 million board feet while its specialty board mill at Gilchrist also added 3 million board feet, both as a result of productivity improvements.

Lumber Markets and Pricing

Lumber markets were relatively strong in the second quarter on increased demand, as reflected by improvements in all three of Interfor's key price benchmarks over the first quarter. The Western SPF Composite improved by US\$38 to US\$300 per mfbm, the SP Composite increased by US\$27 to US\$390 per mfbm and the KD HF Stud 2x4 9' benchmark rose by US\$23 to US\$355 per mfbm.

Summary of Quarterly Results⁽¹⁾

	Unit	2016		2015				2014	
		Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Financial Performance (Unaudited)									
Total sales	\$MM	458.8	433.9	411.4	430.8	429.7	415.4	389.0	373.1
Lumber	\$MM	371.1	348.9	325.0	343.3	352.2	340.7	318.6	303.0
Logs, residual products and other	\$MM	87.7	85.0	86.4	87.5	77.5	74.7	70.4	70.1
Operating earnings (loss)	\$MM	30.0	3.5	(6.3)	(11.6)	(25.8)	7.8	(1.1)	20.1
Net earnings (loss)	\$MM	23.2	0.8	(3.5)	(6.1)	(20.6)	(0.2)	(5.2)	11.0
Net earnings (loss) per share, basic and diluted	\$/share	0.33	0.01	(0.05)	(0.09)	(0.29)	(0.00)	(0.08)	0.16
Adjusted net earnings (loss) ⁽²⁾	\$MM	20.9	2.6	5.5	(15.4)	(14.7)	4.5	10.2	16.1
Adjusted net earnings (loss) per share, basic and diluted ⁽²⁾	\$/share	0.30	0.04	0.08	(0.22)	(0.21)	0.07	0.15	0.24
Adjusted EBITDA ⁽²⁾	\$MM	56.9	33.4	35.8	11.5	12.7	31.8	37.4	45.4
Shares outstanding - end of period	million	70.0	70.0	70.0	70.0	70.0	70.0	66.7	66.7
Shares outstanding - weighted average	million	70.0	70.0	70.0	70.0	70.0	67.8	66.7	66.7
Operating Performance									
Lumber production	million fbm	637	618	568	618	672	639	578	567
Total lumber sales	million fbm	658	637	615	686	719	632	620	595
Lumber sales - Interfor produced	million fbm	634	609	586	663	688	607	605	581
Lumber sales - wholesale and commission	million fbm	24	28	29	23	31	25	15	14
Lumber - average selling price ⁽³⁾	\$/thousand fbm	564	548	529	500	490	539	514	509
Average USD/CAD exchange rate ⁽⁴⁾	1 USD in CAD	1.2886	1.3732	1.3354	1.3089	1.2297	1.2412	1.1350	1.0890
Closing USD/CAD exchange rate ⁽⁴⁾	1 USD in CAD	1.3009	1.2971	1.3840	1.3394	1.2474	1.2683	1.1601	1.1208

Notes:

(1) Figures in this table may not equal or sum to figures presented elsewhere due to rounding.

(2) Refer to the Non-GAAP Measures section of this press release for definitions.

(3) Gross sales before export taxes.

(4) Based on Bank of Canada foreign exchange rates.

Balance Sheet

Net debt at June 30, 2016 was \$396.0 million, or 35.2% of invested capital, representing a decrease of \$34.9 million from June 30, 2015 and a decrease of \$56.3 million from December 31, 2015. A 6.0% strengthening of the Canadian Dollar against the U.S. Dollar contributed \$28.2 million to the net debt reduction in YTD'16 as the majority of debt is denominated in U.S. Dollars.

Thousands of dollars	For the 3 months ended June 30,		For the 6 months ended June 30,	
	2016	2015	2016	2015
Net debt				
Net debt, period opening, CAD	\$ 428,062	\$ 369,683	\$ 452,303	\$ 202,553
Net drawing (repayment) on credit facilities, CAD	(33,619)	60,061	(33,566)	205,812
Impact on U.S. Dollar denominated debt from (strengthening) weakening CAD	1,320	(4,897)	(28,175)	18,720
Decrease in cash and cash equivalents, CAD	196	6,023	5,397	3,785
Net debt, period ending, CAD	<u>\$ 395,959</u>	<u>\$ 430,870</u>	<u>\$ 395,959</u>	<u>\$ 430,870</u>
Net debt components by currency				
U.S. Dollar debt, period opening, USD	\$ 338,692	\$ 305,099	\$ 338,699	\$ 190,000
Net drawing (repayment) on credit facilities, USD	(41,192)	50,024	(41,199)	165,123
U.S. Dollar debt, period ending, USD	<u>297,500</u>	<u>355,123</u>	<u>297,500</u>	<u>355,123</u>
Spot rate, period end			1.3009	1.2474
U.S. Dollar debt expressed in CAD			387,018	442,980
Canadian Dollar debt, including bank indebtedness, CAD			20,000	-
Canadian Dollar operating line, CAD			-	1,971
Total debt, CAD			<u>407,018</u>	<u>444,951</u>
Cash and cash equivalents, CAD			<u>(11,059)</u>	<u>(14,081)</u>
Net debt, period ending, CAD			<u>\$ 395,959</u>	<u>\$ 430,870</u>

Capital Resources

The following table summarizes Interfor's credit facilities and availability as of June 30, 2016:

Thousands of Canadian dollars	Operating Line	Revolving Term Line	Senior Secured Notes	U.S. Operating Line	Total
Available line of credit	\$ 65,000	\$ 200,000	\$ 260,180	\$ 65,045	\$ 590,225
Maximum borrowing available	\$ 65,000	\$ 200,000	\$ 260,180	\$ 65,045	\$ 590,225
Less:					
Drawings	13,009	133,829	260,180	-	407,018
Outstanding letters of credit included in line utilization	9,891	-	-	3,194	13,085
Unused portion of facility	<u>\$ 42,100</u>	<u>\$ 66,171</u>	<u>\$ -</u>	<u>\$ 61,851</u>	<u>\$ 170,122</u>
Add cash and cash equivalents					11,059
Available liquidity at June 30, 2016					<u>\$ 181,181</u>

As of June 30, 2016, the Company had commitments for capital expenditures totaling \$17.5 million, related to both maintenance and discretionary capital projects.

Interfor continues to maintain its disciplined focus on monitoring discretionary capital expenditures, optimizing inventory levels and matching production with offshore and domestic demand.

As at June 30, 2016, the Company had net working capital of \$161.2 million and available capacity on operating and term facilities of \$170.1 million. These resources, in addition to cash generated from operations, will be used to support working capital requirements, debt servicing commitments and capital expenditures. We believe that Interfor will have sufficient liquidity to fund operating and capital requirements for the foreseeable future.

Non-GAAP Measures

This release makes reference to the following non-GAAP measures: Adjusted net earnings (loss), Adjusted net earnings (loss) per share, EBITDA, Adjusted EBITDA, Pre-tax return on total assets and Net debt to invested capital, which are used by the Company and certain investors to evaluate operating performance and financial position. These non-GAAP measures do not have any standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other issuers. The following table provides a reconciliation of these non-GAAP measures to figures as reported in the Company's unaudited interim consolidated financial statements prepared in accordance with IFRS:

Thousands of Canadian dollars	For the 3 months ended June 30,		For the 6 months ended June 30,	
	2016	2015	2016	2015
Adjusted Net Earnings (Loss)				
Net earnings (loss)	23,205	(20,583)	24,000	(20,746)
Add:				
Restructuring (recovery) costs and capital asset write-downs	2,304	(12)	3,507	(134)
Other foreign exchange loss (gain)	(503)	(2,303)	396	3,110
Long term incentive compensation expense (recovery)	(4,147)	3,908	(3,969)	2,199
Other expense	458	162	365	29
Beaver sawmill post-closure wind-down costs	3	11	11	352
Tacoma sawmill post-acquisition losses and closure costs	311	7,651	683	8,659
Income tax effect of above adjustments	(725)	(3,505)	(1,479)	(3,647)
Adjusted net earnings ⁽¹⁾	20,906	(14,671)	23,514	(10,178)
Weighted average number of shares - basic and diluted ('000)	70,030	70,030	70,030	68,937
Adjusted net earnings per share ⁽¹⁾	0.30	(0.21)	0.34	(0.15)
Adjusted EBITDA				
Net earnings (loss)	23,205	(20,583)	24,000	(20,746)
Add:				
Depreciation of plant and equipment	18,765	18,130	38,934	34,645
Depletion and amortization of timber, roads and other	9,652	8,909	17,621	16,853
Restructuring (recovery) costs and capital asset write-downs	2,304	(12)	3,507	(134)
Finance costs	4,965	4,088	10,149	7,162
Other foreign exchange loss (gain)	(503)	(2,303)	396	3,110
Income tax expense (recovery)	1,852	(7,199)	(1,474)	(7,582)
EBITDA	60,240	1,030	93,133	33,308
Add:				
Long term incentive compensation expense (recovery)	(4,147)	3,908	(3,969)	2,199
Other expense	458	162	365	29
Beaver sawmill post-closure wind-down costs	3	10	11	350
Tacoma sawmill post-acquisition losses and closure costs	311	7,604	683	8,585
Adjusted EBITDA ⁽¹⁾	56,865	12,714	90,223	44,471
Pre-tax return on total assets				
Operating earnings (loss) before restructuring costs	32,281	(25,847)	36,943	(18,161)
Total assets ⁽²⁾	1,323,788	1,343,211	1,363,683	1,216,542
Pre-tax return on total assets ⁽³⁾	9.8%	(7.7%)	5.4%	(3.0%)
Net debt to invested capital				
Net debt				
Total debt	407,018	444,951	407,018	444,951
Cash and cash equivalents	(11,059)	(14,081)	(11,059)	(14,081)
Total net debt	395,959	430,870	395,959	430,870
Invested capital				
Net debt	395,959	430,870	395,959	430,870
Shareholders' equity	727,470	703,695	727,470	703,695
Total invested capital	1,123,429	1,134,565	1,123,429	1,134,565
Net debt to invested capital ⁽⁴⁾	35.2%	38.0%	35.2%	38.0%

Notes:

(1) Q1'15 adjusted net earnings, adjusted net earnings per share and adjusted EBITDA have been revised for inclusion of Tacoma sawmill post-acquisition losses arising during that period.

(2) Total assets at period beginning for three month periods; average of opening and closing total assets for six month periods.

(3) Annualized rate.

(4) Net debt to invested capital as of the period end.



CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (LOSS)
For the three and six months ended June 30, 2016 and 2015 (unaudited)

(thousands of Canadian dollars except earnings per share)

	3 Months June 30, 2016	3 Months June 30, 2015	6 Months June 30, 2016	6 Months June 30, 2015
Sales	\$ 458,813	\$ 429,683	\$ 892,757	\$ 845,129
Costs and expenses:				
Production	390,487	409,949	780,623	783,045
Selling and administration	11,775	12,155	22,605	24,069
Long term incentive compensation (recovery) expense	(4,147)	3,908	(3,969)	2,199
Export taxes	-	2,479	-	2,479
Depreciation of plant and equipment	18,765	18,130	38,934	34,645
Depletion and amortization of timber, roads and other	9,652	8,909	17,621	16,853
	426,532	455,530	855,814	863,290
Operating earnings (loss) before restructuring costs	32,281	(25,847)	36,943	(18,161)
Restructuring costs (recovery)	2,304	(12)	3,507	(134)
Operating earnings (loss)	29,977	(25,835)	33,436	(18,027)
Finance costs	(4,965)	(4,088)	(10,149)	(7,162)
Other foreign exchange gain (loss)	503	2,303	(396)	(3,110)
Other expense	(458)	(162)	(365)	(29)
	(4,920)	(1,947)	(10,910)	(10,301)
Earnings (loss) before income taxes	25,057	(27,782)	22,526	(28,328)
Income tax expense (recovery)				
Current	330	308	461	472
Deferred	1,522	(7,507)	(1,935)	(8,054)
	1,852	(7,199)	(1,474)	(7,582)
Net earnings (loss)	\$ 23,205	\$ (20,583)	\$ 24,000	\$ (20,746)
Net earnings (loss) per share, basic and diluted	\$ 0.33	\$ (0.29)	\$ 0.34	\$ (0.30)

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
For the three and six months ended June 30, 2016 and 2015 (unaudited)

	3 Months June 30, 2016	3 Months June 30, 2015	6 Months June 30, 2016	6 Months June 30, 2015
Net earnings (loss)	\$ 23,205	\$ (20,583)	\$ 24,000	\$ (20,746)
Other comprehensive income (loss):				
Items that will not be recycled to Net earnings (loss):				
Defined benefit plan actuarial gain (loss)	(3,580)	1,158	(2,946)	1,440
Income tax recovery	-	376	-	376
Total items that will not be recycled to Net earnings (loss)	(3,580)	1,534	(2,946)	1,816
Items that are or may be recycled to Net earnings (loss):				
Foreign currency translation differences for foreign operations, net of tax	2,607	(7,184)	(18,832)	23,138
Loss in fair value of interest rate swaps	(32)	(10)	(139)	(288)
Total items that are or may be recycled to Net earnings (loss)	2,575	(7,194)	(18,971)	22,850
Total other comprehensive income (loss), net of tax	(1,005)	(5,660)	(21,917)	24,666
Comprehensive income (loss)	\$ 22,200	\$ (26,243)	\$ 2,083	\$ 3,920



CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the three and six months ended June 30, 2016 and 2015 (unaudited)

(thousands of Canadian dollars)

	3 Months June 30, 2016	3 Months June 30, 2015	6 Months June 30, 2016	6 Months June 30, 2015
Cash provided by (used in):				
Operating activities:				
Net earnings (loss)	\$ 23,205	\$ (20,583)	\$ 24,000	\$ (20,746)
Items not involving cash:				
Depreciation of plant and equipment	18,765	18,130	38,934	34,645
Depletion and amortization of timber, roads and other	9,652	8,909	17,621	16,853
Income tax expense (recovery)	1,852	(7,199)	(1,474)	(7,582)
Finance costs	4,965	4,088	10,149	7,162
Other assets	(83)	26	(284)	372
Reforestation liability	(2,157)	(1,931)	(543)	(692)
Other liabilities and provisions	(2,120)	2,951	(3,295)	(3,470)
Stock options	56	99	133	99
Reversal of write-down of plant and equipment	-	-	-	(1,195)
Write-down of plant and equipment	1,018	-	1,018	-
Unrealized foreign exchange loss (gain)	689	(2,355)	698	(328)
Other	458	162	365	29
	56,300	2,297	87,322	25,147
Cash generated from (used in) operating working capital:				
Trade accounts receivable and other	(11,134)	6,170	(12,053)	(9,421)
Inventories	(8,512)	13,348	(5,768)	9,572
Prepayments	2,410	1,312	263	(2,848)
Trade accounts payable and provisions	23,703	(2,666)	13,304	(2,483)
Income taxes paid	(208)	(319)	(466)	(455)
	62,559	20,142	82,602	19,512
Investing activities:				
Additions to property, plant and equipment	(9,446)	(30,543)	(21,997)	(52,118)
Additions to logging roads	(6,148)	(7,765)	(11,237)	(12,903)
Additions to timber and other intangible assets	(219)	(297)	(355)	(1,137)
Proceeds on disposal of property, plant and equipment	139	587	314	3,790
Acquisitions	-	(46,568)	-	(223,361)
Investments and other assets	(8,764)	74	(9,553)	180
	(24,438)	(84,512)	(42,828)	(285,549)
Financing activities:				
Issuance of capital stock, net of share issue expenses	-	-	-	63,196
Interest payments	(4,354)	(3,679)	(11,165)	(6,630)
Debt refinancing costs	(110)	(95)	(842)	(254)
Change in operating line components of long-term debt	(18,467)	17,694	(11,733)	32,921
Additions to long term debt	28,000	42,367	28,000	362,582
Repayments of long term debt	(43,154)	-	(49,834)	(189,691)
	(38,085)	56,287	(45,574)	262,124
Foreign exchange gain (loss) on cash and cash equivalents held in a foreign currency	(232)	2,060	403	128
Decrease in cash	(196)	(6,023)	(5,397)	(3,785)
Cash and cash equivalents, beginning of period	11,255	20,104	16,456	17,866
Cash and cash equivalents, end of period	\$ 11,059	\$ 14,081	\$ 11,059	\$ 14,081



CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and December 31, 2015 (unaudited)

(thousands of Canadian dollars)

	June 30, 2016	Dec. 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 11,059	\$ 16,456
Trade accounts receivable and other	104,158	95,218
Income taxes receivable	454	459
Inventories	157,471	155,740
Prepayments and other	14,415	15,512
Assets held for sale	25,016	27,836
	312,573	311,221
Employee future benefits	247	1,570
Other investments and assets	14,153	3,191
Property, plant and equipment	729,420	777,590
Logging roads and bridges	19,405	20,611
Timber licences	70,889	72,429
Other intangible assets	19,489	23,601
Goodwill	152,037	160,914
Deferred income taxes	19,356	18,669
	\$ 1,337,569	\$ 1,389,796
Liabilities and Shareholders' Equity		
Current liabilities:		
Trade accounts payable and provisions	\$ 137,862	\$ 130,840
Reforestation liability	13,064	11,052
Income taxes payable	433	398
	151,359	142,290
Reforestation liability	24,700	25,074
Long term debt	407,018	468,759
Employee future benefits	10,313	8,391
Provisions and other liabilities	16,709	20,028
Equity:		
Share capital	553,559	553,559
Contributed surplus	7,798	7,665
Translation reserve	58,593	77,425
Hedge reserve	(77)	62
Retained earnings	107,597	86,543
	727,470	725,254
	\$ 1,337,569	\$ 1,389,796

Approved on behalf of the Board:

"L. Sauder"
Director

"D.W.G. Whitehead"
Director

FORWARD-LOOKING STATEMENTS

This release contains information and statements that are forward-looking in nature, including, but not limited to, statements containing the words “will”, “should”, “expects”, “annualized” and similar expressions. Such statements involve known and unknown risks and uncertainties that may cause Interfor’s actual results to be materially different from those expressed or implied by those forward-looking statements. Such risks and uncertainties include, among other things: price volatility, competition, availability and cost of log supply, natural or man-made disasters, currency exchange sensitivity, regulatory changes, allowable annual cut reductions, Aboriginal title and rights claims, potential countervailing and anti-dumping duties, stumpage fee variables and changes, environmental impact and performance, labour disruptions, and other factors referenced herein and in Interfor’s Annual Report available on www.sedar.com and www.interfor.com. The forward-looking information and statements contained in this release are based on Interfor’s current expectations and beliefs. Readers are cautioned not to place undue reliance on forward-looking information or statements. Interfor undertakes no obligation to update such forward-looking information or statements, except where required by law.

ABOUT INTERFOR

Interfor is a growth-oriented lumber company with operations in Canada and the United States. The Company has annual production capacity of approximately 3 billion board feet and offers one of the most diverse lines of lumber products to customers around the world. For more information about Interfor, visit our website at www.interfor.com.

The Company’s unaudited interim condensed consolidated financial statements and Management’s Discussion and Analysis for the three and six months ended June 30, 2016 are available at www.sedar.com and www.interfor.com.

There will be a conference call on Friday, July 29, 2016 at 8:00 a.m. (Pacific Time) hosted by **INTERFOR CORPORATION** for the purpose of reviewing the Company’s release of its second quarter 2016 financial results.

The dial-in number is **1-866-233-4795**. The conference call will also be recorded for those unable to join in for the live discussion, and will be available until August 12, 2016. The number to call is **1-888-203-1112, Passcode 6364992**.

For further information:

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